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ABSTRACT

This booklet for trustees of institutions of higher education offers guidelines for the creation of effective affiliated foundations. An introductory section notes the increased use of such foundations by public colleges and universities for institutional fund-raising and management of property and endowments. The booklet finds that successful foundations are typically responsible for 8 mission-related functions: 4 internally focused (manage resources, promote institutional flexibility, "buy time," and steward gifts); and 4 externally focused (raise money, enlist advocates, strengthen image, and protect donors' rights). Five determinants of the complexity of a foundation's mission and operations are identified: (1) budget and funding; (2) institutional history; (3) legislative definition; (4) governing board policies; and (5) autonomy needs. An organizational model based on analysis of the eight primary functions of a foundation is suggested. In addition, foundations are categorized into four models based on complexity and scope. Mandatory functions that must be carried out within the foundation are its role as "bank" and its fiduciary responsibility to donors. Finally, special cases such as institutions with multiple campuses or those with multiple foundations on the same campus are briefly considered. (DB)

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BOARD BASICS

FOUNDATION RELATIONS

CREATING A SUCCESSFUL AFFILIATED FOUNDATION

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Creating a Successful Affiliated Foundation

Public colleges and universities establish foundations for practical reasons. Some of the first were created to buy important property that was unlikely to be available long enough for the institution to acquire through a routine state appropriations process. Others were set up to preserve the arm's-length relationship between state treasuries and private gifts—particularly endowment gifts. Those early responsibilities (among others) have changed dramatically in the past 20 years as public colleges and universities established a variety of foundations.

Today, affiliated foundations are the locus of major campaigns, engage in comprehensive institutional fund-raising, and manage property and large endowments. Many employ large staffs and have operating budgets of millions of dollars. Yet these foundations appear to follow no systematic pattern of development. Consequently, their composition and organizational structures vary widely. When other institutions seek a foundation model to emulate, the question often arises: "Do universal rules exist for creating a successful affiliated foundation?"

The general answer is No. However, creating a successful foundation depends largely on establishing strong principles, defining their scope and complexity, and selecting appropriate ways to uphold them. Although common elements exist that will contribute to success, individual institutions will have to identify how best to apply them. The conceptual framework presented in this publication identifies some of these common elements and suggests a model to help guide either the development of a new or emerging foundation or an assessment of the effectiveness of an existing organization.

DUAL MISSIONS. Like the Roman god Janus, a foundation's mission faces two ways—inward and outward. Successful foundations typically are responsible for eight mission-related functions that are basic to their operations and central to their effectiveness. Four functions are externally focused—raise money, enlist advocates, strengthen image, and protect donors' rights. Four are internally focused—manage resources, promote institutional flexibility, "buy time," and steward gifts. If a foundation activity does not contribute to the fulfillment of one of these eight functions, institutional and foundation leaders should question whether to conduct the activity at all.

First, institutional officials should determine which of these functions the foundation should incorporate and to what extent. The functions of a foundation's operations should be viewed as a continuum. At the "simple" end are foundations that serve a single purpose. Typically, they focus on one or more basic internal functions by acting somewhat as a bank—receiving, dispersing, managing, and accounting for private funds. These functions are necessary, valuable, and laudatory. A foundation operating at this level does not raise money, makes only minimal use of volunteers, has a nominal effect on the institution's image, and responds almost exclusively to the institution's agenda with respect to priorities and timing. A foundation whose primary purpose is to provide financial services to its institution has the advantages of keeping costs to a minimum and simplifying gift management and fund transfers. However, the simple structure may impede the foundation's autonomy or presumed independence, thus hindering its outreach to large numbers of high-quality, influential volunteers.

At the "complex" end of the continuum are virtually independent, self-sufficient foundations that carry out the institution's internal and external philanthropic agenda. These foundations actively raise money on behalf of the institution. They also attract influential volunteers and provide substantive ways for them to interact with the institution, contribute directly to the institution's public-relations efforts, and are integrally involved in developing institutional priorities for private support while providing a full range of financial and donor services. These comprehensive foundations also consolidate the management of fund-raising programs, thus realizing significant economies of scale in broad-based fund-raising efforts. Such foundations run the risk, however, of developing a level of autonomy that isolates them from the institution's priorities and academic and student leadership.

Foundations occupying the extremes are, perhaps, more the exception than the rule. Of the 47 institutions that responded to a November 1995 survey of the 100 largest college and university foundations, 12 classified themselves as totally independent of the host institution. At the other extreme, nine indicated being organized as banking types of foundations; over time, however, they had evolved into active, fund-raising foundations. Most foundations incorporate a mix of functions into their activities. To maximize effectiveness, foundation leaders—along with institutional and governing board leadership—should select the functions the foundation will perform. That is, the foundation leaders themselves should take an active, intentional, and conscientious role in determining their functions and the manner in which they will be implemented.

FOUNDATION LEADERS THEMSELVES SHOULD TAKE AN ACTIVE, INTENTIONAL, AND CONSCIENTIOUS ROLE IN DETERMINING THEIR FUNCTIONS.

DETERMINANTS OF FUNCTION. Five factors determine the degree of complexity of a foundation's mission and operations. The five are budget and funding, institutional history, legislative definition, governing board policies, and the need for autonomy. Institutional leaders should use these factors as "filters" for the aforementioned eight functions to determine if the function should be assigned to the foundation or the institution.

1. Budget and funding. Of the forces that have shaped foundations, perhaps none is more influential than the sources of revenue that fund their operating budgets. By the late 1980s, virtually every major college or university foundation in the country relied on at least two sources of funds for their operating budgets. Many relied on more to maintain growth and momentum.

FOUNDATIONS CANNOT AFFORD TO BE CONSTANTLY NEGOTIATING REVENUE BUDGETS AND SEARCHING FOR OPERATING FUNDS.

A direct correlation appears to exist between the level of institutionally based funding and the foundation's autonomy. Foundations that rely heavily on institutional support often carry out various functions in behalf of the institution. State regulation, on the other hand, can play an important role in setting boundaries for support of these affiliated operations. Self-reliant foundations that operate principally or exclusively with self-generated sources of support and interest-sensitive revenues may enjoy greater flexibility, but they also may have to curtail growth when interest rates drop and fewer dollars are available. In either circumstance, growth and development may be slowed or reversed in a campaign environment when special allocations for conducting a capital campaign are depleted or when the campaign is completed.

There are no easy solutions for funding the costs of fund-raising. Most fund-raisers agree with the truism that it costs money to raise money—and it costs more money to raise more money. Every institution wants to raise more money, but few have long-term solutions to the problem of paying for expanded or extensive fund-raising efforts. Every source of revenue has advantages and drawbacks. Typically, the greater the reliance on institutionally related funds, the narrower the range of foundation activity, the scarcer the resources for expansion, and the greater the institutional control of program functions.

As foundation leaders look ahead, defining stable budget formulas and identifying predictable sources of revenue are the first steps in confirming the organization's capacity to carry out certain functions. Revenue budgets must be adequate to the task, consistent, long term, and in keeping with performance expectations. In today's intensely competitive environment, foundations cannot afford to be constantly negotiating revenue budgets and searching for operating funds. Such demands cut sharply into the time and energy the foundation's senior management should devote to acquiring pace-setting gifts and managing key volunteers.

2. ***Institutional history.*** Many foundations came into existence as a result of ad-hoc reactions to special needs or external pressures. For example, when a public institution needed to purchase property, the foundation was able to borrow money and hold or develop the property while the state appropriations process took place. College and university foundations also were developed to accomplish fund-raising and "friend raising" tasks that would have been difficult, if not impossible, to carry out under state regulations. Foundations often supplied the flexibility needed to undertake and manage large capital fund-raising efforts and to do so in a more timely and responsive fashion than otherwise would have been possible.

In the absence of clearly defined responsibilities, many foundations are tempted to add functions in response to immediate needs, institutional politics, or strong personalities. Such quasi-random growth can skew the principal focus of foundations away from fund-raising. Raising private resources for a public college or university is a relatively new phenomenon, a condition that can contribute to the ambiguities that often plague foundations and reduce their capacity for fund-raising.

To learn how institutional history affects the selection of functions a foundation will carry out, leaders must understand the entrepreneurial, decentralized character of public colleges and universities—particularly larger institutions. Power and authority operate differently in the public higher education environment from that typically found in business and industry. While administrative authority generally follows reporting lines, power often resides at the academic level where daily academic and research agendas are carried out. Successful fund-raising plans and actions are influenced strongly by this arrangement.

Institutional history also can determine who gives—and to which segment of the institution. For example, alumni usually identify and connect most readily with the college, school, or department from which they received their degree. The stronger the connection, the more comprehensively the foundation's activities must address and link with the institution's various units. The broader the scope of the foundation's fund-raising activities and programs, the greater the cost of sustaining their quality.

Institutional history is a complex determinant for understanding issues that influence the foundation's operations and functions, particularly if the functions are to be reallocated, reevaluated, or expanded.

3. ***Legislative definition.*** The need to gain flexibility in dealing with constricting state legislation often motivates the development of foundations, and legislative definitions often shape the range of functions foundations undertake. Whether assessing a foundation's performance, contemplating changes to a foundation, or establishing a new foundation, it is essential to identify legislative limits and options. Similarly, foundation architects must be conversant with state regulations, case law, and court interpretations that either may enhance or compromise the foundation's capacity to carry out its mission.

4. ***Governing board policies.*** Governing board policies must be taken into account when determining the functions a foundation may be assigned. Governing board policies should incorporate foundation functions, allow for continuity of leadership, and provide oversight for organizational policy and operation. At the same time, governing board policies should discourage micromanagement of foundation operations and limit intervention in organizational operations to the most dire circumstances.

5. ***Autonomy needs.*** Some foundations were created to ensure a well-defined distance between private giving and institutional benefits. In such instances, sources of budget revenue are removed as far as possible from any institutional contribution. Other foundations were created to be servants of the institution, dependent on it for support, and captive to its interests.

In creating a successful foundation, officials must carefully identify and define the degree of autonomy they need to operate in the context of the host institution. Conversely, foundations must avoid losing touch with the host institution's needs and priorities. The proper balance permits foundations to create an environment favorable to increased levels of private support.

AN ORGANIZATIONAL MODEL. To create a successful foundation (or confirm the effectiveness of a foundation), leaders might consider analyzing the eight primary functions of a foundation (raise money, manage resources, enlist advocates, promote institutional flexibility, strengthen image, buy time, protect donors' rights, and steward gifts) and "filtering" them through the aforementioned five factors. Doing so can help determine if the function is best placed under institutional or foundation purview.

This process accepts that certain functions or responsibilities may be divided or shared. For example, enlisting advocates may be a function of an alumni association, but at the same time, new donors (by virtue of their relationship) become institutional advocates. Similarly, strengthening institutional image may be viewed as a principal activity of the institution's communications or public-relations office; however, securing new faculty professorships or chairs surely will strengthen the image of the institution.

"Principal activity" provides the standard of measure. Donors' rights, gift stewardship, and buying time (seizing current opportunity and holding for future allocation, transfer, or use) may be assigned almost exclusively to the foundation. So too may be the responsibility for all fund-raising.

Officials must examine each function and ask where it is best carried out. Most important is to answer the question in the context of the operating budget. Once that question is resolved, questions concerning institutional history, legislative regulation, and autonomy are easier to address. Following each assessment, officials can appropriately place the function either with the institution or foundation.

If multiple functions accrue to the foundation, a more complex model of foundation organization is appropriate; if fewer functions accrue, a simpler model will suffice. Once the functions are arrayed, substantive planning can begin to consolidate the model and implement its operation.

Types of Complexity. Foundations generally fall in one of four models of complexity and scope. (This continuum originated with the consulting firm InForm.) From the least complex to the most, the types follow:

Type I: These foundations are considered passive in nature. They are controlled by the institution, volunteer driven, and their budgets are provided by the institution. In terms of resource management, these foundations are responsible for endowments, planned gifts, real estate, and capital assets.

Type II: These foundations are considered slightly more active. Their budgets are provided by the institution, but they generally are staff driven. For fund-raising, these foundations are responsible for the annual fund and major gifts. In resource management, they are responsible for endowments, gifts and grants, and donor relations.

Type III: These foundations are still more active. They are semi-autonomous and largely board and staff driven. Their budgets are partially supported by the institution. For fund-raising, these foundations are responsible for the annual fund, major and planned gifts, endowment, and bequests. In resource management, they are responsible for the endowment, gifts and grants, real estate, and in some cases, intellectual property. They are mission-focused, conduct long-range or strategic planning, carry out campaigns, manage donors, and steward gifts.

Type IV: These foundations are largely independent. They are board driven and self-sustaining. In terms of fund-raising, they are responsible for major and planned gifts and bequests. In resource management, they oversee the endowment, gifts and grants, real estate, and cash flow. They also are responsible for making grants, selecting projects, managing donors, stewarding gifts, and exerting influence.

Clearly, Type I foundations are assigned the principal activity of managing resources, and perhaps tangentially, buying time and providing some institutional flexibility. At the other extreme, a Type IV foundation manages its own resources, assumes a major portion of fund-raising responsibilities, and assumes other responsibilities—perhaps independent of institutional influence or control. Most college and university foundations today fall between Types II and III and, consequently, assume to an expanding degree all eight principal functions. For a public institution to have an effective fund-raising program, all eight functions must be carried out effectively somewhere in the institution. The only question is where.

Mandatory Functions. Some functions cannot be assigned to the institution; they must be carried out within the foundation. First is the foundation's function as "bank." Only through the autonomy of the independent foundation can donors' rights be ensured. The minimum charge to a foundation's board of directors is to manage all gifts prudently and use them in accordance with the donor's intent. While doing so, however, the foundation should seek to match gifts to the funding priorities of the institution.

Unless the foundation serves the institution's mission and contributes to fulfilling its philanthropic priorities, the foundation has scant reason to exist. Similarly, at the end of the donation process, the foundation is responsible for ensuring effective stewardship, even if the fund-raising function is carried out under institutional aegis. Stewardship goes beyond simply accounting for the gift. Rather, it validates the difference a donor's gift has made to the institution. Effective stewardship is cultivation of the highest order and legitimizes future fund-raising efforts with the same donor and others.

ONLY THROUGH THE AUTONOMY OF THE INDEPENDENT FOUNDATION CAN DONORS' RIGHTS BE ENSURED.

The second mandatory function is the foundation directors' fiduciary responsibility to the donor. By law, the foundation has a separate board of directors to oversee its legal and fiduciary responsibilities. Foundation board members should be selected because of their commitment to and interest in the institution and their ability to influence attitudes and raise money. They also should represent the diversity and focus of the institution's community—local, state, regional, or national.

The board should include the institution's president, the chief advancement officer, other university representatives, and—unless ill-advised in a given state—representatives of its governing board. The range and scope of the foundation's activities and functions are related directly to the institution's mission, statement of needs, and definition of priorities. An inclusive, active, supportive, and well-led board that is professionally staffed is essential to fund-raising success.

As the foundation gains financial stability and corresponding autonomy, its board and the governing board should be certain the foundation does not become isolated or assume the role of grantor, thus placing the institution in the role of supplicant. While such a relationship may seem to work, it raises troublesome questions of institutional and philanthropic vitality. Foundations are specialized service-delivery organizations. The congruity between service and institutional needs may be obscured under these circumstances.

Service on behalf of the institution's needs and priorities places a parallel set of demands on the foundation's governance and mission, as they relate to donors. Each private gift initiates a trust relationship among the donor, the foundation, and the institution. It bears repeating to say that in conjunction with the mandatory banking function, the foundation's board has a fiduciary responsibility to see that gifts are administered and used in accordance with the donor's intent. The board cannot abridge this responsibility.

The process of assigning mandatory functions to a foundation also contributes to ease of its evaluation by the institution's president and governing board. Setting standards for the foundation board's responsibilities for policy development, organizational assessment, and donor relations can prevent micromanagement and empower the foundation and institution staff to plan, implement, and manage operations. Further, a limited number of well-chosen standards provides a focal point for strategic planning, operating tactics, and individual effort.

Additionally, by intentionally linking gift management and solicitation with institutional priorities and by demonstrating a conscious commitment to improving the institution, foundations can help restore public trust in public higher education. Such a focus on intentional decision making about foundation functions (and the rigorous evaluation of those functions) will help ensure that the foundation minimizes a tendency to become isolated and maximizes its service to the institution and society.

Special Cases. Institutions with multiple campuses and those with multiple foundations on the same campus have special needs in creating and sustaining successful foundations. Single institutions in multicampus

systems or settings rarely have identical missions, equal quality, or analogous size and budgets. In these cases, foundation or institutional leaders may be required to apply an additional step to the foregoing organizational model to determine if a central foundation will serve better than a foundation on each campus.

The solution is to modify the model by substituting "central foundation" and "campus-based foundations" when analyzing to which entities the eight functions should be assigned. To determine whether a function is best placed in a central foundation or distributed among foundations, each function selected for foundation operations should be considered in terms of budget, institutional history, legislative definition, governing board policy (especially in system environments), and autonomy needs.

A similar strategy can be posed for campuses with multiple foundations. However, the institution's president and foundation leaders first should ask themselves if they are willing to accept the outcomes of this process, even if the process indicates change is necessary. Leaders also should ask if they can maximize the philanthropic potential of an institution with a segmented structure. The potential for confusion and counterproductive competition in such configurations may well demand that new, and as yet untested, foundation models be developed for institutions with special structures and diverse needs.

CONCLUSION. In an era in which organizations of all types and sizes constantly redefine, restructure, and even reestablish themselves, foundations affiliated with public institutions should be no exception. Foundation leaders should challenge basic assumptions: Is their foundation providing the most effective delivery of service possible? Does it support the mission and goals of the institution? Is it securing as much of the market as possible on behalf of the institution? Are its activities productive and firmly grounded?

Private giving through foundations will not solve all problems of public colleges and universities. Many problems, however, never will be solved without substantial and increasing private support. Well-constructed and properly managed foundations can help uphold the host institution's standards of quality, contribute to its excellence (which helps keeps the institution healthy and competitive), and rekindle public confidence in higher education.

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BOARD BASICS

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- Academic trusteeship grows increasingly ambiguous, and Board members need concise, accessible, and focused information to help them carry out their complex fiduciary and stewardship responsibilities.
- Basic principles of trusteeship remain constant across higher education regardless of institutional type, size, and mission. The series highlights these general principles to provide Board members with a core of knowledge they can apply to their individual situations.
- The series addresses the distinguishing characteristics of academic trusteeship, especially as it differs in scope, substance, and focus from corporate directorships and other board service.

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